

Message Text

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C O N F I D E N T I A L MOSCOW 18304

USDOC FOR BEWT/DOWNEY

E.O. 11652: GDS

TAGS: ETRD, EEWT, UR, US

SUBJECT: DEPUTY MINISTER ALKHIMOV DISCUSSES US-SOVIET TRADE RELATIONS

REF: MOSCOW 18158

1. SUMMARY. DURING TWO-HOUR SESSION DECEMBER 19 WITH DEPUTY ASSISTANT SECRETARY DOWNEY AND COMMATT, DEPUTY MINISTER OF FOREIGN TRADE V.S. ALKHIMOV WAS STRONGLY CRITICAL OF RECENT U.S. GOVERNMENT ACTIONS ON US-SOVIET TRADE FRONT, HITTING PARTICULARLY ON WHAT HE TERMED PESSIMISTIC STATEMENTS BY USG OFFICIALS ON CHANCES OF CONGRESSIONAL ACTION ON TRADE LEGISLATION AND RECENT DENIAL OF IBM SYSTEM FOR INTOURIST. INTER ALIA, ALKHIMOV STATED THAT SOVIETS CONTINUE TO REGARD MFN AS KEY PROBLEM IN US-SOVIET TRADE AND REJECTED POSSIBILITY THAT SOVIETS MIGHT USE COMMERCIAL BANK FINANCING AS PARTIAL SUBSTITUTE FOR EX-IM CREDITS. END SUMMARY.

2. DOWNEY OPENED DISCUSSION WITH BRIEF REVIEW OF LEGISLATIVE SITUATION AND DESCRIBED HEARINGS WHICH UNDERWAY IN SENATE COMMERCE COMMITTEE. IN THIS CONNECTION, DOWNEY ASKED ALKHIMOV WHETHER LISTING OF PRIORITIES WHICH MINISTER PATOLICHEV GAVE SECRETARY SIMON IN APRIL 1975 (I.E. CONFIDENTIAL

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MFN BEFORE CREDITS) REMAINED UNCHANGED OR WHETHER RECENT SHIFTS

IN SOVIET UNION'S FOREIGN EXCHANGE POSITION HAD LED TO GREATER STRESS ON CREDIT PROBLEM.

3. ALKHIMOV LAUNCHED INTO LENGTHY MONOLOGUE IN WHICH HE MADE FOLLOWING POINTS:

1) USG OFFICIALS, INCLUDING DOWNEY, HAD BEEN TOO PESSIMISTIC REGARDING CHANCES OF LEGISLATIVE ACTION. ALKHIMOV SAID HE HAD JUST RECEIVED LETTER FROM CONGRESSMAN VANIK IN WHICH VANIK HAD SAID HE WAS OPTIMISTIC THAT CHANGES IN 1974 TRADE LEGISLATION WOULD BE ADOPTED "WITHIN TWO OR THREE MONTHS." (COMMENT: EMBASSY WOULD BE INTERESTED IN RECEIVING COPY OF VANIK-ALKHIMOV LETTER, IF POSSIBLE. END COMMENT).

2) USG OFFICIALS HAD BEEN UNABLE TO CONVINCE CONGRESS THAT MFN AND CREDITS FOR USSR WERE NO "GIFT" BUT RATHER BASIS FOR NORMAL TRADING RELATIONSHIP;

3) EMIGRATION ISSUE HAS BEEN ARTIFICIALLY TIED TO TRADE. WHY TIE EMIGRATION TO TRADE WHEN IT WASN'T TIED TO SALT?

4) USG OFFICIALS HAVE MADE TOO MUCH "NOISE" ABOUT SOME ASPECTS OF US-SOVIET TRADE SUCH AS PROPOSED LNG PROJECTS.

4. IN RESPONSE TO DOWNEY'S QUESTION REGARDING SOVIET PRIORITIES, ALKHIMOV SAID THAT MFN, WHICH HE TERMED SIGN OF "MUTUAL RESPECT," REMAINED KEY PROBLEM FOR SOVIETS. HE DISMISSED IMPORTANCE OF CREDITS BY OBSERVING THAT USSR HAD LINED UP DOLS 10 BILLION IN WESTERN CREDITS AND COULD DO QUITE WELL WITHOUT U.S. CREDITS.

5. DOWNEY ASKED ALKHIMOV WHETHER SOVIET CLAIM THAT U.S. COMPANIES HAD LOST DOLS 1.7 BILLION IN BUSINESS DUE TO U.S. TRADE LEGISLATION COULD BE DOCUMENTED. ALKHIMOV CLAIMED THAT DOLS 1.7 BILLION FIGURE REPRESENTED "CONTRACTS WHICH WE HAD NEGOTIATED AND WERE READY TO SIGN WITH U.S. FIRMS" BUT WHICH WERE DIRECTED ELSEWHERE AS RESULT OF MFN/CREDITS ISSUE. HE ADDED THAT FIGURE FOR LOST BUSINESS HAD CONTINUED TO GROW AND WAS NOW FAR IN EXCESS OF DOLS 1.7 BILLION, ALTHOUGH HE DECLINED TO SPECIFY CONTRACTS INVOLVED.

6. REGARDING IMPACT OF CURRENT BUSINESS CLIMATE ON U.S. FIRMS, ALKHIMOV AGREED WITH DOWNEY'S OBSERVATION THAT IT WAS IMPORTANT

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TO AVOID SITUATION IN WHICH U.S. FIRMS GIVE UP ON SOVIET MARKET. HOWEVER, HE WENT ON TO SAY THAT THIS WAS PROBLEM FOR USG AND CONGRESS, ALTHOUGH SOVIETS WOULD DO WHAT THEY COULD.

7. ON CREDIT QUESTION, ALKHIMOV SAID SOVIETS WERE NOT PREPARED TO ACCEPT U.S. COMMERCIAL BANK CREDITS FOR PROJECTS SUCH AS YAKUTIA EXPLORATION BECAUSE FLOATING RATES WERE UNACCEPT-

ABLE AND U.S. INTEREST RATES WERE IN ANY CASE TOO HIGH. IN THIS CONNECTION, HE SAID HE EVEN DOUBTED THAT SOVIETS WOULD NOW FIND EX-IM RATES ATTRACTIVE, ALTHOUGH HE ADDED THAT FIXED RATE, EVEN IF IT WERE IN 8.25/9.25 PERCENT RANGE WAS PREFERABLE TO FLOATING RATE. COMMATT POINTED OUT THAT VNESHOTORG BANK WAS GOING INTO EURO-DOLLAR MARKET FOR SUBSTANTIAL SUMS WITH FLOATING RATES. ALKHIMOV CLAIMED THAT THESE LOANS HAD NOTHING TO DO WITH MINISTRY OF FOREIGN TRADE AND THAT FUNDS RAISED WOULD NOT BE USED FOR TRADE PURPOSES. HE SUGGESTED THAT SHORT-TERM BRIDGING OPERATIONS WERE INVOLVED OR THAT FUNDS RAISED WERE DESTINED FOR NON-TRADE PAYMENTS. COMMATT SUGGESTED THAT SUMS INVOLVED COULD ONLY BE FOR MAJOR IMPORT PROGRAMS, A POINT WHICH ALKHIMOV FIRMLY REJECTED.

8. TURNING TO INTOURIST LICENSE CASE, ALKHIMOV MADE FOLLOWING POINTS:

A) DENIAL OF LICENSE WAS SMALL BUT HARMFUL DECISION;

B) ALL INDUSTRY IS IN ONE WAY OR ANOTHER CONNECTED WITH MILITARY. DENIAL OF LICENSE SHOWS THAT U.S. MILITARY AUTHORITIES ARE MAKING DECISIONS ON LICENSING;

C) IBM DECISION REPRESENTS BIG STEP BACKWARDS TOWARDS EARLY 1950'S WHEN IT WAS ILLEGAL TO EXPORT PICTURE FRAME WITH COPPER WIRE TO USSR;

D) RATIONALE FOR IBM DECISION WAS NOT EXPLAINED TO SOVIET GOVERNMENT AT SUFFICIENTLY HIGH LEVEL;

E) WE (MINISTRY OF FOREIGN TRADE) TOLD OUR FOREIGN TRADE ORGANIZATIONS TO GO TO U.S. MARKET. NOW WE LOOK LIKE IDIOTS. WE WANT TO KNOW HOW FAR THIS WILL GO. ARE WE GOING BACK TO CONFIDENTIAL

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1950'S?

9. IN REPLY, DOWNEY EXPLAINED THAT ALL USG ORGANIZATIONS HAD BEEN IN AGREEMENT THAT SYSTEM PROPOSED FOR INTOURIST HAD BEEN OF SUCH A SIZE THAT THERE COULD BE NO GUARANTEE AGAINST DIVERSION TO OTHER USES. HE STRESSED THAT TREND IN EXPORT LICENSING AREA WAS NOT RPT NOT BACK TO 1950'S, BUT RATHER TOWARD RELAXATION. DOWNEY NOTED THAT HE HAD INFORMED SOVIET TRADE REP MKRTUMOV OF LICENSING ACTION AND HAD EXPLAINED REASONS. HE ASKED WHETHER THIS LEVEL OF CONTACT WAS DEEMED INSUFFICIENTLY HIGH BY SOVIETS. ALKHIMOV AVOIDED DIRECT RESPONSE AND REPEATED EARLIER OBSERVATION THAT CASE WAS "HARMFUL" AND WOULD INJURE OVERALL RELATIONSHIP. ALTHOUGH ALKHIMOV GENERALLY PRESENTED INTOURIST CASE AS CLOSED MATTER AS FAR AS SOVIETS CONCERNED, HE ALSO NOTED

THAT HE UNDERSTOOD SECRETARY KISSINGER HAD TOLD DOBRYNIN THAT
USG COULD TAKE ANOTHER LOOK AT THE CASE ALTHOUGH THERE COULD
BE NO GUARANTEE THAT DECISION WOULD BE ALTERED. (COMMENT:
ALKHIMOV APPEARED TO BE HOLDING OUT POSSIBILITY THAT WHAT
HE HAD DESCRIBED AS "HARMFUL" IMPACT OF IBM DECISION COULD STILL
BE OVERCOME, IF USG SO DESIRED. END COMMENT)

10. COMMENT: HARSH AND AGGRESSIVE TONE ADOPTED BY ALKHIMOV
WAS IN SHARP CONTRAST WITH ATTITUDES TAKEN BY DEPUTY
MINISTER SUSHKOV (REFTEL) AND BY STATE COMMITTEE FOR
SCIENCE AND TECHNOLOGY DEPUTY CHAIRMAN GVISHIANI
DURING THEIR MEETINGS WITH DOWNEY. IT WAS INTERESTING
THAT GVISHIANI, WHO WAS DOUBTLESS AS CONCERNED AS ANY
OTHER SOVIET OFFICIAL OVER USG TURNDOWN OF IBM LICENSE
APPLICATION FOR INTOURIST SYSTEM, DID NOT EVEN MENTION
THIS CASE. KEY TO ALKHIMOV'S CURRENT MOOD MAY LIE IN
HIS COMMENT THAT "WE LOOK LIKE IDIOTS" IN LIGHT OF
USG ACTION ON INTOURIST CASE. ALKHIMOV, WHO HAS BEEN
MORE IDENTIFIED THAN ANY OTHER SOVIET FOREIGN TRADE
OFFICIAL WITH DEVELOPMENT OF US-USSR TRADE AND ECONOMIC
COOPERATION, MAY WELL FEEL CONSIDERABLE RESENTMENT OVER
FACT THAT HE MUST NOW EXPLAIN TO HIS COLLEAGUES, AND
PERHAPS TO HIGHER-RANKING OFFICIALS, WHY DEVELOPMENT OF
US-SOVIET TRADE HAS NOT FOLLOWED HIS EARLIER
PREDICTIONS.
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